

Kelly Brownell:

Hello, and welcome to Policy 360. I am Kelly Brownell, the Dean of the Sanford School of Public Policy at Duke University. Today I'm very pleased to welcome Betsy Holden to Policy 360. Betsy is a Senior Advisor for the management consulting firm, McKinsey & Company. Previously, she was Co-CEO of Kraft Foods and CEO of Kraft Foods North America. At the time, Kraft Foods was the largest food company in North America and the second largest in the world.

Betsy is a member of the boards of directors of a number of companies and organizations, including Time Inc. and Western Union, and has been deeply involved in the educational, cultural, and economic life of the city where she lives, Chicago. And because we are recording this on the Duke campus, I would like to mention that Betsy graduated summa cum laude from Duke University, and now serves on the Duke University Board of Trustees. Welcome, Betsy.

Betsy Holden:

Thank you, Kelly. You

Kelly Brownell:

You started at General Foods, which later merged with Kraft, as an Assistant Product Manager in the desserts division. You were brand manager for Miracle Whip, VP of Marketing for dinners and enhancers. And you steadily moved up to the CEO position at Kraft. How have you seen the food industry evolve over these years?

Betsy Holden:

Well, I think a couple of things. I would say consolidation, so there's been consolidation where the larger firms have continued to buy each other. I think globalization. Most companies now are large, multinational ... Learning how to play in both emerging markets and in developed markets.

And I've seen a significant number of changes in food trends. I think if you think through, particularly in the area of health and wellness, and I think I know an area of real interest to you. But if I think back over my time, we went to where it was all about removing calories and calories were bad, and then it was fat and then it was cholesterol. And coffee was bad and then coffee was good. So there's been a lot of changes in terms of, I think, information, changing diets. I think if you've also looked at the change in activity level, we clearly are dealing with an issue of obesity, both in the US and virtually all over the world.

Kelly Brownell:

So what are the largest food companies in the world? People might be surprised to know that they're not necessarily in the US.

Betsy Holden:

Well, Nestle, largest food company. You've got Nestle, you've got Pepsi, who's both food and beverage. Kraft, Mondelez, those are some of the largest ones.

Kelly Brownell:

And give us a sense of the scope. Take a company like Kraft, how large would it be? How many products would it sell in how many parts of the world?

Betsy Holden:

Well, Kraft recently split off from Mondelez. And so Kraft now is more focused in North America, and they just joined with Heinz. So as I said, a lot of ... But usually you're talking about 100 countries, so people probably in 100 countries. You've got probably 12 or 13 different business units, 40, \$50 billion worth of sales, so significant scale.

Kelly Brownell:

So if you think about consumers and interest in nutrition and sustainability, is the consolidation of the industry a helpful change or an unhelpful change?

Betsy Holden:

Well, let me step back. When we were talking about trends, I think the other thing that's going on right now is people were concerned about, I would call it absence of bad, removing the fat, removing the sugar. Now you see a swing back to people want real, they want simple, they want local.

And so you're seeing a big swing in the food industry right now, which I think ... And I think what you're going to see happen is you'll see continued consolidation with the big players, and you'll see a whole emergence of smaller, more artisanal food companies, more local food companies. So I think we're in a period of real disruption right now, which, to me, makes it pretty interesting.

Kelly Brownell:

I bet it does. Well, in that vein, you work as a consultant to companies. What did you see as some of the big challenges that the multinational food companies face?

Betsy Holden:

Well, I mean, clearly one of the issues is resource scarcity. I think we all are excited by, but also daunted by the resource scarcity challenges coming forward. I mean, right now we've got about 900 million people who are undernourished on a chronic basis. You've got three billion people who will be moving into the middle class by 2030 with increased caloric needs.

And if you just look at the demands, it's almost a 100% increase between animal feed and crop requirements to feed the world. And frankly, by 2030, we could face challenges with about 40% of water needs. So the resource scarcity, and what that means in terms of volatility of crop inputs, of potential unrest, to me are extremely significant.

Kelly Brownell:

So 2030 is not very far off. Is that time to make the significant changes that might be needed?

Betsy Holden:

Well, I think, I mean, clearly what's needed is productivity. And I think if we also step back, this is a very thorny issue and requires integrated solutions across the value chain, and public and private partnerships. I think clearly there's a need for productivity.

Kelly Brownell:

Seeing a greater crop yields per acre.

Betsy Holden:

Well, I would say yes, and that's actually slowed down. So that to me is one of the watch outs. And some of the things that have been drivers of this have been some of the GMOs, some of the seed innovations. And so I think we need to really understand what the issues are and work together to help to solve it. And to help people understand that some of these innovations are really necessary and good for people, and they're not frightening and they're not a health concern.

I think the other issue is just the significant waste in the system right now. In places like Africa, you've got 30% of waste that doesn't get off the farm because the supply chains aren't set up to get from the small farmers to the plants or to consumer consumption. So you've got 30% waste in developing markets. And then in your established markets, you've got 30% waste at retail, at restaurants, in consumers' homes. So we've got to find a way to address those waste issues also.

Kelly Brownell:

Do you see any signs that there is progress on that front?

Betsy Holden:

Yes, I do. In fact, if you look at some of the food scarcity issues, there's been an improvement of about 4% in the last year. If you look at public and private partnerships in Africa ... I mean, one of the things I've been really impressed with McKinsey is they will go in and identify what the issues are. And I think they went into Africa to say, "The issue is, people are dealing with yields, but nobody's dealing with the issue of how do you get from the farm to the factory or to the plant or to the consumer."

And so I think by highlighting what some of the issues are, I'm seeing the governments step up and form partnerships with companies to help address some of the issues. I'm on the board of Diageo, which is a large spirit company, and they do beer. They produce beer and also non-alcoholic beverages in Africa. And they have formed some very interesting partnerships with the government, with small, medium and large farmers in Africa. To really help address, to invest, so the farmers have the money to be able to sustain their agriculture, and also to help build the supply chain.

Kelly Brownell:

When you mentioned that the companies have serious worries about the supply chain resourcing and things like that. You mentioned water in that context. How do the companies think about water?

Betsy Holden:

Well, on a couple of fronts. I think all of them are looking for ways in their own production processes to use as little water as possible and to recycle. And so I think virtually all that I've talked to and seen have gone through their own processes to make ...

And then I think they're working through what needs to be done in the whole supply chain. Well, how do you work with the ag companies, the Monsanto's of the world? Are there seeds, are there crops that can grow in less water conditions? And how do we start to think about recyclability, desalination, a whole host of issues.

Kelly Brownell:

When you think about the multinational food companies, the producers like Unilever and Nestle and Kraft, et cetera. And then on the other hand, the big agribusiness companies, Cargill, Monsanto, what

used to be called Archer-Daniels-Midlands, now ADM. People think about those as quite distinct from one another. How do they interact?

Betsy Holden:

Well, usually they're large suppliers too. So I know in my situation I would've worked with ADM. I would've worked with Monsanto, I've would have worked with Cargill. And we had very good, strong strategic partnerships with them. They would understand what we were trying to do, what our challenges were, and we would work collaboratively together. That's the kind of solution that we need.

Kelly Brownell:

What do you see as some of the greatest opportunities for the food companies moving forward?

Betsy Holden:

Well, another challenge, I think, is also just the whole obesity issue that we were talking about. And I see a big opportunity now, as you have concerns about health and wellness. As I said, I think the industry is in disruption. And so I think there's an opportunity for companies to continue to evolve their portfolios. And to work collaboratively with governments, with schools, with universities, with healthcare providers, to try to more holistically solve the obesity and health and wellness issues.

Kelly Brownell:

Well, it's interesting to hear the way you characterize this, because certainly with the world population growing, there are profitability opportunities for the industry, just because there will be more mouths to feed. But you're also talking about different sorts of foods and different thinking about foods in the context of both health and the environment. It sounds like there are many opportunities there.

Betsy Holden:

Exactly. Yes, I think you stated that that well.

Kelly Brownell:

Well, it would be very interesting to see where that goes. And in some cases there might be places one could imagine were protecting the environment and providing as much food to the world as possible, could come in conflict. And that's where you get into these thorny issues such as GMOs.

Betsy Holden:

Right? And I think that's where it's just understanding the information and understanding the trade-offs, and then working collaboratively to solve it, is the issue.

Kelly Brownell:

You know what? You're here, thankfully, to take part in a conference that we're holding about the future of food policy. And one of the issues that we're interested in this that there are big clusters of people who work in different parts of the food system, people who work on hunger, for example, or on obesity or unsustainability, who don't interact very much with each other.

And we've identified that as a problem and see it as a real progress forward if there were more interaction to occur. Do you see it that way?

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Betsy Holden:

I totally agree with you. And I would say, again, McKinsey has McKinsey Global Institute, where they'll take some of these thorny issues and look at them and really try to put together the fact base. And I think on both the resource scarcity, sustainability, and on obesity, what really stands out is that too many people are working on pieces of the puzzle, and not enough people are working across and really integrating and convening so that we're getting to more end-to-end solutions. Which is why I'm very excited about what you're trying to do here.

Kelly Brownell:

Well, thank you. And thank you so much for joining us today, we appreciate you sharing your expertise.

Betsy Holden:

Thank you.

Kelly Brownell:

So I've been talking today with Betsy Holden. Betsy was Co-CEO of Kraft Foods and CEO of Kraft Foods North America. And she is now a Senior Advisor for McKinsey & Company. Until next time, I'm Kelly Brownell.